ENVIRONMENTAL AND PUBLIC PROTECTION CABINET
OFFICE OF FINANCIAL INSTITUTIONS

Ernie Fletcher
Governor

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LaJuana S. Wilcher
Secretary

March 20, 2006

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: No 2006-01

Dear Sir or Madam:

The Kentucky Office of Financial Institutions (KOFI) supervises state chartered banks, credit unions, bank holding companies, consumer finance companies, payday lenders, money service businesses, and mortgage lenders and brokers. We appreciate the opportunity to comment on the proposed guidance regarding commercial real estate (CRE) lending. While we share the federal banking agencies' concern with unsound concentrations and support sound risk management practices, this agency has several concerns regarding the proposal.

The proposed guidance would place a very heavy burden on community banks and likely place them at a competitive disadvantage to large banks and other commercial lenders. The guidance could also lead to credit crunches in some communities and harm local economic development. Community banks are the drivers of economic development in local communities in Kentucky and artificial constraints could slow that development. The requirements will require significant resources and will be of little or no use to small community banks. Community bankers know their borrowers and that is the best risk mitigation tool available.

With few exceptions, Kentucky banks are doing an effective job of risk management regarding CRE lending. We feel the examination process is the proper vehicle to focus on this risk and believe it is appropriate to continue to focus on this risk in that process. It is apparent that the risks are different from bank to bank and between the sub-markets within the CRE sector. Additional guidance is not necessary to supplement existing supervisory tools.

In summary, we continue to believe that the best method of monitoring risk management in this area is through the examination process, enabling examiners to assess risk in each institution based on the unique factors in each institution. Banks that fail to properly manage risk in this area will be subject to prompt supervisory action. We appreciate the opportunity to comment regarding these provisions and look forward to working with the federal bank regulatory agencies in this regard.

Sincerely,

Cordell G. Lawrence

Cordell G. Lawrence
Executive Director